

Department of Environment and Conservation

**For the Years Ended
June 30, 2001, and June 30, 2000**

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STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
State Capitol
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John G. Morgan
Comptroller

November 26, 2002

The Honorable Don Sundquist, Governor
and

Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and

The Honorable Milton H. Hamilton, Jr., Commissioner
Department of Environment and Conservation
401 Church Street
Nashville, Tennessee 37243

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Department of Environment and Conservation for the years ended June 30, 2001, and June 30, 2000.

The review of management's control and compliance with policies, procedures, laws, and regulations resulted in certain findings which are detailed in the Objectives, Methodologies, and Conclusions section of this report.

Sincerely,

John G. Morgan
Comptroller of the Treasury

JGM/th
02/041



**STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT**

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May 17, 2002

The Honorable John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have conducted a financial and compliance audit of selected programs and activities of the Department of Environment and Conservation for the years ended June 30, 2001, and June 30, 2000.

We conducted our audit in accordance with government auditing standards generally accepted in the United States of America. These standards require that we obtain an understanding of management controls relevant to the audit and that we design the audit to provide reasonable assurance of the Department of Environment and Conservation's compliance with the provisions of policies, procedures, laws, and regulations significant to the audit. Management of the Department of Environment and Conservation is responsible for establishing and maintaining internal control and for complying with applicable laws and regulations.

Our audit disclosed certain findings which are detailed in the Objectives, Methodologies, and Conclusions section of this report. The department's administration has responded to the findings; we have included the responses following each finding. We will follow up the audit to examine the application of the procedures instituted because of the audit findings.

We have reported other less significant matters involving the department's internal controls and/or instances of noncompliance to the Department of Environment and Conservation's management in a separate letter.

Sincerely,

Arthur A. Hayes, Jr., CPA,
Director

JGM/th

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit
Department of Environment and Conservation
For the Years Ended June 30, 2001, and June 30, 2000

AUDIT SCOPE

We have audited the Department of Environment and Conservation for the period July 1, 1999, through June 30, 2001. Our audit scope included a review of management's controls and compliance with policies, procedures, laws, and regulations in the following areas: access to statewide computer applications, state parks, equipment, the Division of Underground Storage Tanks, citizen support organizations, the Division of Internal Audit, Elk River Resources Management, environmental section receipts, Department of Finance and Administration Policy 16—*Employee Housing and Meals*, and the Financial Integrity Act. The audit was conducted in accordance with government auditing standards generally accepted in the United States of America.

AUDIT FINDINGS

Access to the State's Computer Applications Not Adequately Limited

The department does not adequately limit access to the Property of the State of Tennessee (POST) system, which is used to account for the state's equipment other than vehicles; the Tennessee On-Line Purchasing System (TOPS), which is used to process purchase orders; and the State Employee Information System (SEIS), which is used to process personnel actions (page 4).

Weak Controls Over Cash Receipts at the State Parks**

The department does not have adequate controls over cash-receipting procedures at the following state parks visited: Cumberland Mountain, Fall Creek Falls, Paris Landing, and Pickwick Landing (page 8).

Free Meal Policy Not Followed at Paris Landing State Park

Some park employees received free meals, although their job duties did not entitle them to free meals according to departmental policies (page 10).

Requirements in the Agreements for Leased Operations Not Enforced

Fall Creek Falls State Park did not enforce all requirements of the lease agreements for its leased operations. In some cases, late fees were not assessed, and in other cases, the operator was permitted to pay less than the agreed-upon amount (page 12).

Controls Over Inventories at State Parks Need Improvement

For some inventories at Paris Landing and Pickwick Landing state parks, the custodian of the inventory was authorized to make adjustments to the inventory balance without any oversight. Also, at Fall Creek Falls State Park, an employee purchases and receives the entire inventory for the restaurant (page 13).

Proper Purchasing Procedures Not Followed*

At Cumberland Mountain, Fall Creek Falls, Paris Landing, and Pickwick Landing state parks, some purchases were not made in accordance with the state's purchasing guidelines. Some of these purchases should have been made from a statewide contract. For other purchases, the park should have obtained competitive bids (page 14).

Controls Over Equipment Need Improvement*

The department did not always remove lost or stolen items from POST or report them to the Comptroller of the Treasury timely. For some equipment items tested, the location and serial number shown in POST were not correct. One item tested could not be found (page 16).

Financial Responsibility Rules Not Enforced**

The Division of Underground Storage Tanks does not enforce its rules requiring tank owners or operators to demonstrate financial

responsibility for cleanup costs associated with petroleum leaks (page 19).

Controls Over Underground Storage Tank Fund Expenditures Need Improvement**

The Division of Underground Storage Tanks does not routinely inspect cleanup sites or perform field audits of contractors' invoices. Also, the division is not processing requests for reimbursement timely (page 21).

Proper Accountability Over Certain Fixed Assets Not Established

Assets transferred to the department when the Tennessee Elk River Development Agency was dissolved have not been recorded in the state's inventory systems (page 25).

Cash Receipting and Collection Procedures for the Environmental Divisions Need Improvement**

There is no independent reconciliation of the ledgers or databases, listings of checks, and deposit slips. For the Radiological Health program, fee payments could not always be traced to the ledgers used to track customer payments. In the Division of Underground Storage Tanks, some receipt books could not be located. Also, the Division of Water Pollution Control did not exert sufficient effort to collect delinquent permit fees (page 28).

Weak Controls Over Cash Receipts at the Environmental Assistance Centers

Cash receipting duties were not always adequately segregated, and proper cash handling procedures were not always followed (page 30).

Weak Controls Over Cash Receipting at the Fleming Training Center

The duties involved in the cash-receipting process at the center were not adequately segregated (page 32).

State Policy on Providing Housing to Employees Not Followed*

The department only submitted one housing plan to the Department of Finance and Administration (F&A) during the audit period. The department prepared another plan but never submitted it to F&A. Neither plan was filed with the Division of State

Audit. Three employees received a housing allowance but were not shown on the housing plan. For two employees tested, there was no documentation on file to indicate that their housing allowances had been approved. Two employees shown in the housing plan as being assigned state housing also received a housing allowance. Three rangers who were used for temporary assignments across the state received a housing allowance, although they were not required to live in close proximity to their assignment (page 34).

* This finding is repeated from the prior audit.

**This finding is repeated from prior audits.

"Audit Highlights" is a summary of the audit report. To obtain the complete audit report, which contains all findings, recommendations, and management comments, please contact

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Audit Report
Department of Environment and Conservation
For the Years Ended June 30, 2001, and June 30, 2000

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Department of Environment and Conservation For the Years Ended June 30, 2001, and June 30, 2000

INTRODUCTION

POST-AUDIT AUTHORITY

This is the report on the financial and compliance audit of the Department of Environment and Conservation. The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*, which authorizes the Department of Audit to “perform currently a post-audit of all accounts and other financial records of the state government, and of any department, institution, office, or agency thereof in accordance with generally accepted auditing standards and in accordance with such procedures as may be established by the comptroller.”

Section 8-4-109, *Tennessee Code Annotated*, authorizes the Comptroller of the Treasury to audit any books and records of any governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

BACKGROUND

The mission of the Department of Environment and Conservation is to promote, protect, and conserve the state’s natural, cultural, recreational, and historical resources for the benefit of Tennesseans and visitors. The Commissioner and his staff are supported by four sections: Administrative Services, Conservation, Environment, and Tennessee State Parks.

Administrative Services provides overall policy management, legal assistance, and support services to all areas of the department. Overall support services include environmental policy, fiscal services, human resources, information systems, internal audit, legal, and public information.

Conservation works to identify and preserve significant historical and archaeological sites, as well as natural resources. Some of this section’s responsibilities are publishing *The Tennessee Conservationist* magazine, maintaining state-owned historical sites, providing grants to local governments for the acquisition and development of public outdoor recreation areas, and providing aid and technical assistance to Tennessee’s Native American population.

Environment is responsible for preserving and enhancing the state’s environmental resources and for ensuring compliance with state and federal regulations.

Tennessee State Parks manages the system of resort, rustic, and recreational parks and natural, historical, and archaeological areas. State parks maintenance provides a systematic approach to constructing, inventorying, and maintaining all facilities managed by the department.

An organization chart of the department is on the following page.

AUDIT SCOPE

We have audited the Department of Environment and Conservation for the period July 1, 1999, through June 30, 2001. Our audit scope included a review of management's controls and compliance with policies, procedures, laws, and regulations in the following areas: access to statewide computer applications, state parks, equipment, the Division of Underground Storage Tanks, citizen support organizations, the Division of Internal Audit, Elk River Resources Management, environmental section receipts, Department of Finance and Administration Policy 16—*Employee Housing and Meals*, and the Financial Integrity Act. The audit was conducted in accordance with government auditing standards generally accepted in the United States of America.

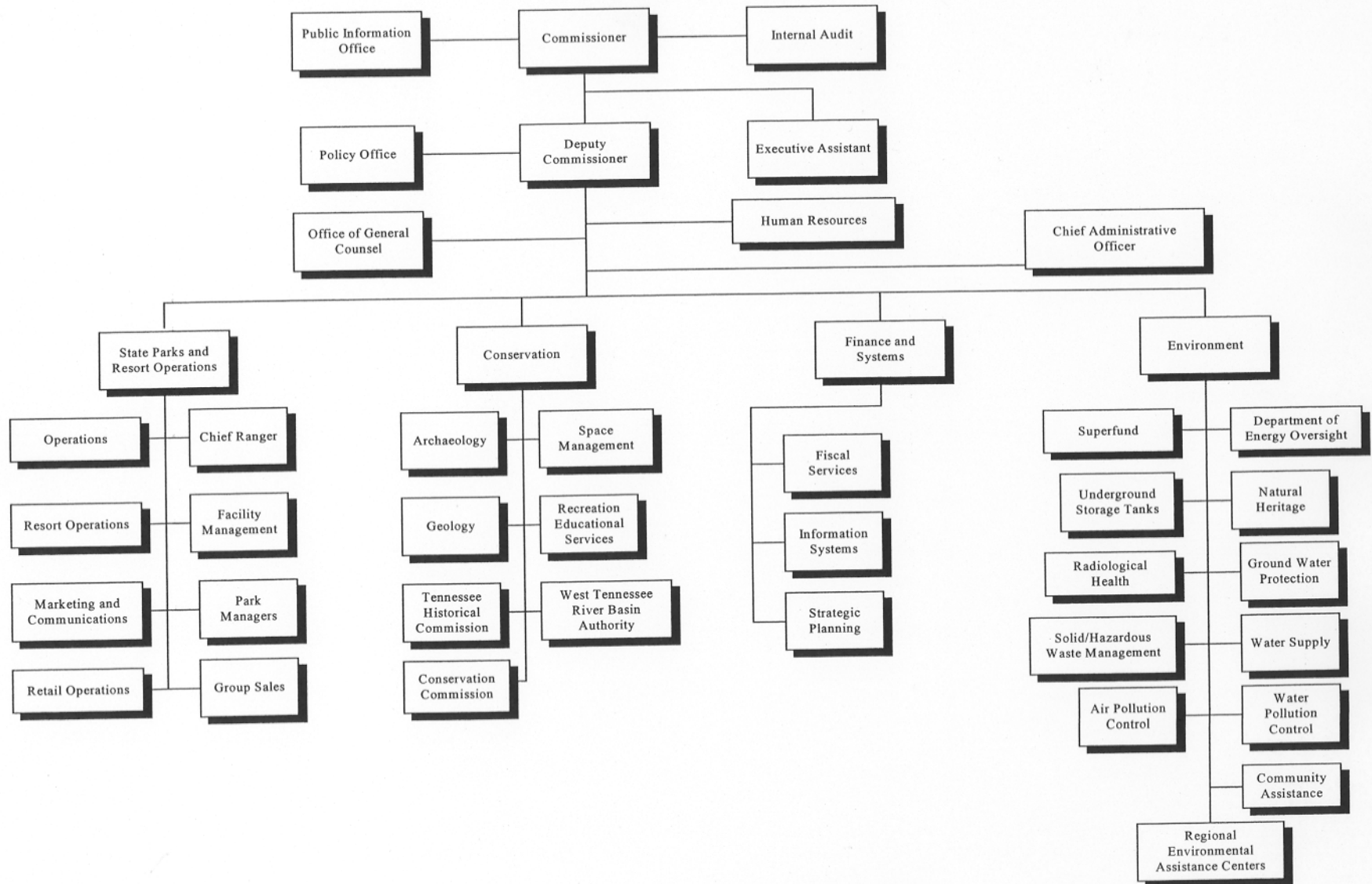
PRIOR AUDIT FINDINGS

Section 8-4-109, *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. The Department of Environment and Conservation filed its report with the Department of Audit on October 12, 2001. A follow-up of all prior audit findings was conducted as part of the current audit.

The prior audit report contained findings concerning weak controls over receipts at the state parks, noncompliance with the state's purchasing policies and procedures, weak accountability over the department's equipment, weak controls over cash receipts in the environmental divisions, inadequate enforcement of financial responsibility rules, weak controls over Underground Storage Tank Fund expenditures, procedures not being followed for delinquent accounts in the Division of Water Pollution Control, and noncompliance with Policy 16 of the Department of Finance and Administration. These findings have not been resolved and are repeated in the applicable sections of this report.

The prior audit report also contained four findings related to special investigations. Some of the control weaknesses noted in those findings are also included in this year's findings.

Department of Environment and Conservation Organization Chart



OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS

ACCESS TO STATEWIDE COMPUTER APPLICATIONS

The department uses the State of Tennessee Accounting and Reporting System (STARS) to account for its financial activity, the Tennessee On-line Purchasing System (TOPS) to handle purchases of goods and services, the State Employee Information System (SEIS) to record payroll and personnel activity, and the Property of the State of Tennessee (POST) system to maintain accountability over its equipment. Our objectives in reviewing this area were to determine whether

- only active employees have access to these applications;
- access is limited to those employees whose job duties require it; and
- the level of access creates an adequate segregation of duties.

To accomplish these objectives, we interviewed key employees to gain an understanding of internal controls. We obtained from our information systems staff listings of all persons who had access to Department of Environment and Conservation allotment codes in STARS and SEIS and their level of access. We obtained from the Department of General Services a listing of all persons who had access to Environment and Conservation allotment codes in TOPS and POST and their level of access. We tested all persons on the listings to determine if they were active employees as of the date of the listings. We tested a nonstatistical sample from each listing to determine if the level of access was limited to those employees whose job duties required it and if the level of access created an inadequate segregation of duties.

As a result of these interviews and testwork, we concluded the following:

- active employees were not the only ones with access to these applications;
- access was not always limited to those employees whose job duties required it; and
- the level of access in some instances created an inadequate segregation of duties.

These problems are discussed further in finding 1. In addition to the finding, other minor weaknesses were reported to management in a separate letter.

1. The department does not adequately limit access to the state's computer applications

Finding

The department does not adequately limit access to the Property of the State of Tennessee (POST) system, which is used to account for the state's equipment other than vehicles; the

Tennessee On-Line Purchasing System (TOPS), which is used to process purchase orders; and the State Employee Information System (SEIS), which is used to process personnel actions.

- Twenty-one of 146 persons with access to POST on December 12, 2001, (14.4%) were not employees of the department as of that date.
- Testwork on 25 employees with access to POST indicated that 17 (68%) had a greater degree of access than was warranted by their job duties. The employees had PROP access, which permits changing all information about a piece of equipment in the department except the cost and surplus. The employees appeared to only need INVO access, which only permits updating the inventory date; or INQR access, which is inquiry only.
- Of 175 persons with some level of TOPS access, 41 (23.4%) had a level of access that created an inadequate segregation of duties. These individuals could enter a purchase order, approve it, record receipt of the item, and approve payment.
- Testwork on 25 employees with access to TOPS indicated that 3 (12%) had a greater degree of access than was warranted by their job duties.
- Twenty-four of 25 employees tested (96%) had more access to SEIS than was warranted by their job duties. Although these employees only needed access to allotment codes related to the parks division, they had a limit code of 2, which permits them to view payroll information on any employee in the department.

Inadequate management controls permit individuals to circumvent the normal review and approval process. This could significantly increase the potential for errors and fraud to occur and go undetected. Failure to end computer access for terminated or transferred employees could allow disgruntled employees to corrupt files.

Recommendation

The Commissioner should initiate a review of access to all of the state's computer applications. Those employees with more access than is needed should have their access reduced. Employees with access to TOPS should not have authority to initiate, approve, and receive purchases. The Commissioner should also establish procedures to ensure access to computer applications is canceled promptly after an employee is terminated or transferred to another job or department.

Management's Comment

We concur. The department has reviewed the access for all SEIS users and has taken appropriate action to reduce user access when appropriate. In the future, the department will review the access of all users of POST and TOPS on a regular basis and will reduce access where necessary. We have also taken steps to institute procedures for each of the applications in

question to ensure that computer access is canceled promptly after an employee is terminated or transferred.

STATE PARKS

We reviewed with parks administration at the central office in Nashville the various controls and reports used to manage the state parks, including park policies and procedures. We selected four parks to visit: Cumberland Mountain, Fall Creek Falls, Paris Landing, and Pickwick Landing. For those parks, we obtained and reviewed the profit and loss reports prepared by the state parks central office to analyze individual park performance. We obtained listings of park vehicles, gift shop inventories, and golf proshop inventories. We reviewed the most recent internal audit report for each park to be visited to determine if additional audit steps needed to be added. Following this overview, we visited the parks and performed testwork on cash receipts, lease agreements between the parks and vendors, inventories, expenditures, and state vehicle usage.

The objectives of our cash receipts work at the state parks were to determine whether

- cash handling duties at the parks were adequately segregated;
- cash receipts were adequately safeguarded from collection until deposit in the bank;
- cash receipts were deposited timely;
- voids and “no sale” rings were properly reviewed and approved;
- employees were properly accounting for cash and credit card sales at the golf proshop and other retail operations within the parks;
- gift certificates were handled properly;
- proper rental fees were collected for rooms and/or cabins;
- escrow receipts were properly accounted for; and
- free meals were given to ineligible employees.

At each park visited, we obtained an understanding of internal controls over cash receipts through the completion of memos and questionnaires. We selected a nonstatistical sample of days in which there were cash receipts at each retail operation in the park. We compared cash receipts to the daily sales reports and the deposit slips to determine if the receipts were deposited timely. We reviewed cash register tapes for evidence of excessive “no sale” rings and voids. We reviewed credit card and gift certificate transactions to determine if they were being properly recorded. For the cabin and inn operations, we compared entries in the escrow receipts ledger to the retail operations report, the sales report for the day, and the deposit slip to determine if proper rates were being charged and all entries in the ledger were being rung up on the cash register and deposited timely. As part of our testwork on cash register sales at the restaurant, we noted the

employees who were given free meals and determined if the employees had job duties that qualified them for free meals.

Based on our interviews, reviews, and testwork, we concluded that

- cash handling duties at the parks were not always adequately segregated;
- cash receipts were not always adequately safeguarded from collection to deposit in the bank;
- cash receipts were not always deposited timely;
- voids and “no sale” rings were not always properly reviewed and approved;
- employees were not always properly accounting for cash and credit card sales at the golf proshop and other retail operations within the parks;
- gift certificates were not always handled properly;
- proper rental fees were not always collected for rooms and/or cabins;
- escrow receipts were not always properly accounted for; and
- free meals were sometimes inappropriately given to employees.

These problems are discussed further in findings 2 and 3.

The objectives of our testwork on lease agreements were to determine whether

- the agreements were approved prior to their implementation; and
- the amounts of the payments made by the lessees complied with the terms of the agreements.

We reviewed all leases in effect at each of the parks that we visited to determine if the agreements had been approved prior to their implementation. We tested all payments made by the lessees to determine if the payments complied with the terms of the agreements.

As a result of this testwork, we concluded that the agreements were approved prior to their implementation, but the amounts of the payments made by the lessees did not always comply with the terms of the agreements. This is discussed further in finding 4.

The objectives of our testwork on inventories were to determine whether proper procedures were followed for safeguarding and accounting for retail inventories. We gained an understanding of the parks’ procedures through the completion of memos and questionnaires. We compared the year-end physical inventory count sheets to the inventory totals included on the revenue and expenditure reports sent to the parks administrative office in Nashville.

We concluded that the safeguards were not always adequate, and inventory totals on the physical inventory count sheets could not always be reconciled to the totals on the reports sent to Nashville. These are discussed further in finding 5.

The objectives of our expenditures testwork were to determine if expenditures charged to maintenance, professional and administrative, and supplies were properly approved, were supported by an invoice or other appropriate documentation, and were in compliance with the applicable policies and procedures. To accomplish this objective, we reviewed the state's purchasing policies and procedures and obtained an understanding of the internal controls being used through the completion of questionnaires. We also tested a nonstatistical sample of expenditures.

We concluded that expenditures were properly approved, were supported by an invoice or other appropriate documentation, but were not always made in accordance with the state's purchasing guidelines. This issue is discussed in finding 6.

The objective of our state vehicle testwork was to determine if usage of state vehicles by park personnel was proper and adequately documented. We interviewed park personnel about the controls and procedures related to state vehicles. We tested all of the vehicles assigned to the park to determine if the mileage logs were complete and if the reported mileage amounts reconciled to the current odometer readings. For the same vehicles, we calculated the miles-per-gallon fuel usage as reported on the monthly gasoline usage reports to determine if the calculated usage appeared consistent and appropriate for the vehicle type. We obtained explanations for any significant variances between months for the same vehicle. We concluded that state vehicle usage by park personnel was proper and adequately documented.

In addition to the findings mentioned above, other minor weaknesses were reported to management in a separate letter.

2. Controls over cash receipts at the state parks are weak

Finding

As noted in the prior three audits, the department does not have adequate controls over cash-receipting procedures at the state parks. In its response to the prior audit finding, management stated that it had reminded all park personnel of the department's *Fiscal Procedures Manual*, which addresses all phases of cash receipts, and stressed the requirement to follow those policies. Management also stated that it was evaluating and limiting access to safes containing cash receipts and properly segregating cash-receipting duties where possible or instituting effective compensating controls. Nevertheless, problems remain. We reviewed controls over cash receipts at Cumberland Mountain, Fall Creek Falls, Paris Landing, and Pickwick Landing state parks. The following weaknesses were noted:

- Cash receipts were not always deposited timely.
- Voids and “no sale” transactions on the cash registers were not always reviewed and approved by the supervisor. There does not appear to be a consistent policy regarding “no sale” transactions.
- Cash and credit card receipts did not always reconcile to the cash register tapes.
- In some cases, there was no documentation to indicate that more than one person participated in the count of daily receipts.
- Cash receipts are not always adequately safeguarded. In some cases, there are too many people with access to the parks’ safes.
- Some daily reports, closeout reports, and one cash register tape requested could not be located.
- At the inns, there were some missing customer records which show account activity from the individual’s stay.
- Gift certificates/coupons were not consistently voided, entered in the cash register, or maintained.
- At the inns, some customers were charged rates that did not agree with the applicable rate schedule. There was no documentation in the customers’ records to explain why a different rate was charged.

Recommendation

The assistant commissioner over state parks should train the park managers in proper internal control procedures. The park managers at all state parks should implement procedures to strengthen controls over cash receipts and should monitor compliance with these procedures. Cash receipts should be deposited timely. “No sale” rings should be virtually eliminated. Also, the supervisor should approve all voided transactions, and the approval should be documented. Cash and credit card receipts should be reconciled to the cash register tapes and the deposits by someone independent of the cash receipting process; any differences should be reviewed and investigated by the supervisor. Two employees should count each day’s receipts and initial the daily reports. In addition, access to the various safes at the parks should be kept to a minimum. When they are redeemed, gift certificates/coupons should be cancelled, entered in the cash register, and placed with the day’s receipts. At the inns, customers should be charged the rates shown on the applicable rate schedule. If there is a valid reason to deviate from the schedule, documentation should be kept in the customer’s record to explain why a different rate was charged.

Management's Comment

We concur. During the audit period, management provided training to all park management on proper internal control procedures and stressed the importance of maintaining adequate documentation. However, the department recognizes that such training must be offered continually due to employee turnover and as refreshers to longer-term staff. Furthermore, management recognizes that in some instances park staffing will not allow strict segregation of duties, but other compensating controls will be used to alleviate the lack of staffing, which is not likely to be corrected with the current budget problems facing state parks.

Specifically, management will establish written procedures regarding "no sale" rings, voids, and other cash controls, and in September 2002, management distributed a new tool to assist resort park management in evaluating their internal controls. This new tool is entitled "Internal Controls Self Audit" and will provide a concise review of the controls at the resort operations.

3. The free meal policy was not followed at Paris Landing State Park

Finding

Some employees of the department are eligible to receive free meals in certain circumstances. The Department of Finance and Administration's Policy 16, *Employee Housing and Meals*, states in paragraph 15.b. that meals shall be provided without charge to employees "when it is determined by the appointing authority that situations exist that render it either impractical, unsafe, or imprudent for meal breaks to be taken away from the facility grounds."

The Department of Environment and Conservation has established policies for providing meals to its employees. Section V.3. of Policy Directive 301 states that food service employees qualify for a free meal "if they are on-duty two (2) hours before and two (2) hours after the meal is consumed. Only one (1) free meal will be allowed for every eight (8) hour shift." According to Section V.2. of the policy, the following food service employees are eligible for free meals: hospitality managers, park managers, restaurant cashiers, cooks, food service aides, servers, seasonal employees assigned to the restaurant, and central office staff when directly assigned to the restaurant.

Testwork on restaurant receipts at Paris Landing State Park revealed that some park employees had inappropriately received free meals. The following problems were found:

- On 14 of the 25 days tested (56%), one or more employees received a free meal although their job duties did not entitle them to it. The ineligible employees included a conservation worker, a laborer, a maintenance worker, hospitality assistants, and room clerks. In one instance, a Department of Correction employee received a free meal.

- On one of the 25 days tested, a hospitality manager received two free meals: one at 1:08 p.m. and another at 8:42 p.m. There was no evidence that this employee was on duty two hours before and two hours after each meal.

Policy Directive 301, Section V.6., states, “Each employee eating a free meal must fill out the first open line of form SP-91 Employee Meal Register and sign his/her name. No one will be permitted to sign for someone else.” On three of the days tested, all of the names of the employees on the register appeared to have been signed by the same person. On those days, only the first name and last initial were written in the register.

In January 2001, the park installed a more advanced system to record and account for retail sales. When it was installed, the park stopped using the meal register although the policy directive was not revised. Instead, employees sign a meal ticket when they receive a free meal. These tickets are supposed to be included with the cash received on that day. On two days tested, there were no employee meal tickets with the days’ receipts, so it could not be determined if all employees who received a free meal were eligible.

If ineligible employees receive free meals, the state loses revenue and state regulations are violated. If proper records of those receiving free meals are not kept, the likelihood increases that more ineligible employees will receive free meals.

Recommendation

The assistant commissioner over state parks should instruct all park employees to follow state and department rules and regulations. If the department feels that another method of accounting for free meals would be more effective and efficient, it should revise Policy Directive 301 and ensure that all affected employees understand the new policy and follow it.

Management’s Comment

We concur that during the audit period, the current free “duty” meal policy was not followed in all instances at Paris Landing State Park. We do believe that in the vast majority of instances the duty meal policy was adhered to; however, we recognize that eligibility and documentation procedures did need to be updated and improved. Park management at all resort operations has since been instructed to enforce the current duty meal policy to ensure that only those employees eligible to receive the meal do so.

To clarify which employees are eligible for the duty meal, the current policy has been amended to allow the Assistant Hospitality Managers and park managers responsible for the restaurant operations to be allowed one duty meal per day. This change is in response to the audit pointing out that a certain Assistant Hospitality Manager was taking a duty meal even though it was not allowed by the current policy. Management believes these two classes of employees should receive one duty meal per shift since their responsibilities require their

presence in the restaurant like other restaurant employees. Additionally, the policy has been amended to place more stringent reporting requirements of duty meals on employees at parks with restaurants where the Hospitality Management System is in operation. In those parks duty meals must be accompanied by a restaurant guest check, and the restaurant guest check number must be entered on the daily duty meal log. The old reporting system will remain in place at parks without the Hospitality Management System.

4. Requirements in the agreements for leased operations should be enforced

Finding

At certain state parks, the department leases operations such as riding stables and snack bars to private individuals or companies. During the visit to Fall Creek Falls State Park, it was noted that the park did not enforce all requirements of the lease agreements for leased operations. The following discrepancies were noted:

- The operator of the riding stables did not make two monthly lease payments on time. One payment was 29 days late, and the other payment was 19 days late. The lease requires a 10% late charge to be added if payment is not made by the 15th day of the month. However, no late charges were collected by the park for these two months.
- The operator of the bike rental concession made one monthly lease payment 19 days late. The lease requires a 10% late charge to be added if payment is not made by the 15th day of the month. However, no late charge was collected by the park.
- The operator of the pool snack bar was permitted to pay less than the agreed-upon amount on three occasions. The total underpayment for the three months was \$404.61. On another occasion, the operator made the lease payment 20 days late but was not assessed the 10% late fee required by the lease.
- The operator of the golf proshop snack bar was permitted to pay less than the agreed-upon amount for six months. The total amount of the underpayment was \$1,800.35. On three occasions, the operator made the lease payment late; two were 17 days late, and one was 20 days late. The 10% late fee required by the lease was not assessed.

The failure to enforce lease requirements for leased operations results in reduced revenue to the state.

Recommendation

The Commissioner should assign specific responsibility in parks administration for reviewing lease receipts on a regular basis and ensuring that the agreements are followed.

Management's Comment

We concur. During the audit period, circumstances occurred at Fall Creek Falls State Park that caused the park not to enforce, in some instances, the contract requirements for timely payments and late charges for its leased operations. While the actions on the part of the park may be justified, the leniency that was granted was not approved by the appropriate management level. Park managers have been instructed to strictly enforce all lease agreements and that any variation to those agreements must be approved in advance by the appropriate level of management. The Assistant Commissioner of State Parks has assigned the Contract Administrator to periodically review the lease payments to ensure that lease agreement requirements are followed.

5. Controls over inventories at state parks need improvement

Finding

At Paris Landing, Fall Creek Falls, and Pickwick Landing state parks, controls over inventories were not adequate. The following weaknesses were noted:

Paris Landing State Park

- The marina inventory count sheet for June 30, 2001, had a retail total of \$36,330.53. However, the total sent to the Nashville office was \$32,122.18, which was supposedly cost. The difference of \$4,208.35 could not be reconciled. Also, the custodian of the inventory is authorized to make adjustments to the inventory balance without any oversight.
- The golf proshop inventory count sheet for June 30, 2001, was missing; therefore, the accuracy of the total inventory sent to the Nashville office could not be determined. Also, the golf proshop manager is the inventory custodian and is authorized to make adjustments to the inventory balance without any oversight.

Fall Creek Falls State Park

- An employee purchases and receives the entire inventory for the restaurant. She is also responsible for processing payments for this inventory if purchased on statewide contract.

Pickwick Landing State Park

- The golf proshop manager is the custodian of the inventory and is authorized to make adjustments to the inventory balance without any oversight.
- The restaurant manager is the custodian of the restaurant inventory and is authorized to make adjustments to the inventory balance without any oversight.

If inventory duties are not properly segregated and inventory count sheets are not maintained, the probability of an error or fraud occurring and not being detected increases.

Recommendation

The assistant commissioner over state parks should revise the inventory procedures to include separating the duties of purchasing from receiving. The park manager should be the only one authorized to approve adjustments to inventory balances.

Management's Comment

We concur. Individual violations brought to our attention have been discussed in-depth with park management. Management will continue to provide training to park employees regarding the proper segregation of duties for purchasing and receiving merchandise. Additionally, in the future, the Director of Golf and Marina Operations will approve all inventory adjustments at the pro shops and marina stores.

6. The state parks did not follow the state's purchasing policies and procedures

Finding

As noted in the prior audit, the state parks did not always follow the state's purchasing policies and procedures. In its response to the prior finding, management concurred that certain purchasing policies and procedures were weak. Management stated that it had stressed to all park managers the importance of following the purchasing procedures. Management also stated that it had conducted additional training on proper purchasing procedures. Nevertheless, the problem persists.

Testwork on expenditures at the four state parks visited revealed that some purchases were made in accordance with the state's purchasing guidelines. Some of these purchases should have been made from a statewide contract. For the other purchases, the park should have obtained competitive bids.

The testwork found improper purchases at Pickwick Landing State Park for 3 of 25 expenditures tested (12%), at Cumberland Mountain State Park for 3 of 25 expenditures tested (12%), at Fall Creek Falls State Park for 2 of 25 expenditures tested (8%), and at Paris Landing State Park for 6 of 25 expenditures tested (24%).

Failure to follow state purchasing policies could result in the park paying too much for a particular product or service or could result in purchases that upper management would have deemed unnecessary or inappropriate.

Recommendation

The assistant commissioner over state parks should stress to the park managers the importance of following state purchasing policies, monitor compliance with these policies, and take action against those park managers who do not comply.

Management's Comment

We concur in part. We acknowledge that the state parks made mistakes in coding purchases; however, we do not believe the results of the audit indicate that there is a serious problem in this area. Of the 14 expenditures noted as improper, four were for linen rental. Linen rental is a recurring expenditure at our resort parks, and the amounts paid by the parks were at or below the contract price. Six of the 14 expenditures noted as improper were for restaurant purchases. Restaurant purchases are made on a frequent basis at our state park restaurants, and in the past, it has been difficult for the restaurant to comply with the \$400 purchase limit. In recognition of this difficulty, the Board of Standards has granted state park retail operations an exception, thereby raising the purchase limit to \$1,000 effective December 2001. We do agree that bids should have been obtained for the remaining four invoices.

Nevertheless, we will continue to train employees responsible for purchasing at parks to ensure that proper procedures are followed, split invoicing is eliminated, and bids are obtained when required.

EQUIPMENT

The objectives of our work on equipment were to determine whether

- the information in the Property of the State of Tennessee (POST) system about equipment assigned to the department was correct;
- proper procedures were followed concerning lost or stolen equipment; and
- expenditures in the State of Tennessee Accounting and Reporting System (STARS) for equipment reconciled to POST additions.

We interviewed personnel and completed an internal control questionnaire to gain an understanding of the procedures for adding, deleting, and updating equipment information in POST. We selected a nonstatistical sample of equipment in POST costing at least \$5,000. These items were tested to determine whether the information in POST matched the information on the equipment and whether the cost information in POST for equipment purchased during the audit period agreed with the invoice. We obtained a list of all equipment reported to our office as lost or stolen. From this list, we selected a nonstatistical sample to determine whether the items were removed from POST timely and were reported to our office timely. We obtained a list of all expenditure transactions charged to equipment for the year ended June 30, 2001, from STARS

and determined if this total reconciled to the list of all equipment in POST with an acquisition date during the same period.

As a result of our review and testwork, we concluded that

- the information in POST about equipment assigned to the department was not always correct;
- proper procedures were not always followed for lost or stolen equipment; and
- expenditures in STARS for equipment reconciled to POST additions.

The problems mentioned above are discussed further in finding 7. In addition to the finding, other minor weaknesses were reported to management in a separate letter.

7. Controls over equipment need improvement

Finding

As noted in the prior audit, the department needs to strengthen controls over equipment. Management concurred with the prior finding and stated that it had been working on steps to improve the safeguarding of equipment; however, further improvement is needed.

A sample of 25 equipment items reported lost or stolen was selected to determine if the equipment was removed from the Property of the State of Tennessee (POST) system and reported to the Comptroller of the Treasury within 30 days of the date that the equipment was reported missing. There was not enough documentation on two of the items to determine when they were reported missing. Of the 23 items that were tested, 21 (91.3%) were not removed from POST within 30 days, and 16 (69.6%) were not reported to the Comptroller's office within 30 days.

Section 8-19-501, *Tennessee Code Annotated*, states, "It is the duty of any official of any agency of the state having knowledge of shortages of moneys of the state, or unauthorized removal of state property, occasioned either by malfeasance or misfeasance in office of any state employee, to report the same immediately to the comptroller of the treasury."

The department has a total of 488 pieces of equipment that cost at least \$5,000, which is the capitalization threshold. For 27 of these items (5.5%), there was no indication in POST that they had been physically inventoried at the end of fiscal year 2001.

The *POST User Manual* requires each state agency to take an annual physical inventory of all property on POST prior to the close of each fiscal year.

Testwork was performed on a sample of 25 equipment items that were listed as active in POST and cost at least \$5,000. One of the 25 items (4%) could not be found; 6 (24%) were not

at the location shown in POST; and 4 (16%) had serial numbers that did not agree with the number shown in POST.

Failure to properly record and inventory equipment weakens accountability and may result in the loss of equipment.

Recommendation

Management should ensure that the property officer removes lost or stolen items from POST and reports them to the Comptroller of the Treasury immediately, a physical inventory of all equipment is performed annually, and POST is updated promptly when changes in location occur. Upper management should monitor controls over equipment to ensure that all applicable regulations and procedures are followed.

Management's Comment

We concur. The department takes this responsibility very seriously and continues to work on steps to improve the controls over equipment. The department has recently issued written procedures concerning the accountability for the acquisition, disposition, and control of state-owned property. These procedures clearly describe the responsibilities of each division director, environmental assistance center manager, park manager, and their designated property officer. The procedures also describe the responsibilities of each property officer related to controls of state-owned property. Management will monitor to ensure that staff follows the established written procedures.

The department has always performed an annual inventory of all equipment items. Action will be taken to ensure that lost or stolen items are reported to the Comptroller of the Treasury immediately and then removed from POST. Upper management will continue to stress the importance of properly accounting for all equipment items.

DIVISION OF UNDERGROUND STORAGE TANKS

The primary functions of this division are to inspect new tank installations and to investigate and oversee the cleanup of leaking petroleum underground storage tanks.

The division's rules and regulations require owners or operators of petroleum underground storage tanks to demonstrate that they are financially able to correct accidental releases and to compensate third parties for bodily injury and property damage caused by the releases.

An owner or operator can demonstrate financial responsibility by participating in the department's Underground Storage Tank Fund, by meeting a financial test of self-insurance, or

by using one of the other forms of financial assurance allowed by the U.S. Environmental Protection Agency, provided the owner or operator obtains the approval of the division for the alternate form of financial responsibility.

Underground Storage Tank Fund

The purpose of this fund is to provide tank owners or operators with a method of reducing the risk of personal liability for environmental cleanup costs associated with leaks from or the removal of underground storage tanks. All tank owners or operators can become eligible to participate in the fund, although participation is not mandatory.

Fund revenues come from a \$0.004 per gallon tax on all gas imported into the state and from annual tank fees paid by tank owners or operators. Fund expenditures are payments to participating tank owners or contractors for the site cleanups.

The objectives of our review were to determine whether

- management had procedures in place which ensured that tank owners or operators demonstrated financial responsibility;
- management had procedures in place which ensured that cleanup work was only performed by qualified Corrective Action Contractors (CACs);
- management had procedures in place which ensured that all cleanup work done by CACs was satisfactory and that the amount billed for this work was accurate;
- expenditures were approved, properly documented, recorded correctly, and complied with applicable regulations; and
- cleanup expenditures were processed for payment timely.

To accomplish our objectives, we obtained an organization chart of the division and reviewed the applicable laws and regulations. We interviewed key personnel in the division and reviewed supporting documentation to gain an understanding of the division's procedures. We also tested a nonstatistical sample of reimbursement requests from CACs for cleanup expenditures.

As a result of our review and testwork, we concluded that

- management did not have adequate procedures in place which ensured that tank owners or operators demonstrated financial responsibility as discussed in finding 8;
- management had procedures in place to ensure that cleanup work was only performed by qualified CACs;
- management did not have procedures in place to ensure that cleanup work done by CACs was satisfactory and that the amount billed for this work was accurate (discussed further in finding 9);

- expenditures were approved, properly documented, reported correctly, and complied with applicable regulations; and
- cleanup expenditures were not always processed for payment timely as discussed in finding 9.

In addition to the findings, other minor weaknesses were reported to management in a separate letter.

8. The Division of Underground Storage Tanks does not enforce the rules regarding financial responsibility

Finding

As noted in the prior two audits, the Division of Underground Storage Tanks does not ensure that owners or operators of petroleum underground storage tanks demonstrate financial responsibility. *Rules and Regulations of the State of Tennessee*, “Underground Storage Tank Program,” Chapter 1200-1-15-.08(4)(a), states:

Owners or operators of petroleum underground storage tanks shall demonstrate financial responsibility for taking corrective action and for compensating third parties for bodily injury and property damage caused by accidental releases arising from the operation of petroleum underground storage tanks.

The division’s enforcement and compliance section performs on-site inspections to determine whether the owners or operators are complying with the department’s rules concerning areas such as installation and leak detection. These inspections include the review of various documents to ensure compliance but do not include verification of the owner’s or operator’s compliance with the financial responsibility requirements, even though such documents are required to be kept on site. Chapter 1200-1-15-.08(9)(a) states:

Owners or operators shall maintain evidence of all financial assurance mechanisms used to demonstrate financial responsibility under this rule for an underground storage tank. . . . An owner or operator shall maintain such evidence at the underground storage tank site or the owner’s or operator’s place of business. Records maintained off-site shall be made available upon request of the Department.

Based on discussions with division staff, it appears that the department does not know which owners or operators are eligible to participate in the Underground Storage Tank Fund until an accidental release occurs. Therefore, it is not possible for the department to determine whether the owner or operator has adequately demonstrated financial responsibility.

In its response to the prior audit finding, management concurred and outlined steps it would take to ensure that financial responsibility was evident. However, these procedures have not been completed.

Recommendation

The director of the division should promptly establish procedures that require staff to identify which owners or operators are eligible to participate in the Underground Storage Tank Fund, to routinely review the owner's or operator's evidence of financial responsibility, and to monitor compliance with these procedures.

Management's Comment

We concur. Since the inception of the Underground Storage Tank Fund, the department has operated under very strict rules concerning the reimbursement of expenses to owners and operators of petroleum tanks. This careful fiscal responsibility resulted in divisional rules that required owner/operators to have documented evidence of the ability to clean up a leaking tank if required. That diligence, as well as the complexity of determining exactly who does pay for cleanup, has resulted in this finding. We have implemented all of the recommendations of the audit as documented below.

Fund Eligibility: This year, the department worked with the legislature and successfully amended the law relating to fund eligibility. This amendment is compatible with the proposed rule change mentioned below. The changes to the law made in 2002 allow a registered tank owner and/or operator to cure fund ineligibility by paying outstanding fees and/or late payment penalties for releases that occur on or after July 1, 2002, the effective date of the amendment. The new law extends coverage to property owners and allows them to cure fund ineligibility at registered sites by paying outstanding tank fees (the late payment penalties would still be owed by the tank owner/operator). Another important provision of the new amendment is the requirement not to issue certificates to tank owners who owe fees and late payment penalties. This means that the issuance of a certificate demonstrates the eligibility of any newly discovered releases at that site. In this way, the eligibility of all active tanks can be monitored on a routine basis.

Fund eligibility is now determined by registration and payment of tanks fees, including all outstanding fees and penalties. When all tank fees and penalties are paid, the owner is issued a certificate indicating eligibility.

Furthermore, the division has implemented a process to annually notify owners or operators of loss of fund eligibility. Last year, a UST database search was conducted to determine all owners or operators who had been notified of loss of eligibility. Based on this search, orders were issued to those owners or operators who could not produce proof of financial responsibility.

Evidence of Financial Responsibility: A proposed rule change to Rule 1200-1-15.08(3)(a) is proceeding through the normal promulgation process to eliminate the requirement that fund eligible owners/operators of petroleum underground tanks be required to submit a separate financial instrument covering the deductible.

Compliance Monitoring: In 2002, the division began development of the nation's first Environmental Response Program for compliance. This program will require certification and payment of fees by owners or operators prior to issuing a certificate indicating eligibility. Yearly certification of compliance will be required by every owner/operator. Certification information from every owner/operator will be entered into a database and a statistical sample will be evaluated to produce a targeted inspection list. Owners/operators that are out of compliance will be required to submit a "return to compliance plan" before being re-declared as fund eligible.

9. Controls over Underground Storage Tank Fund expenditures need improvement

Finding

As noted in the prior two audits, the Division of Underground Storage Tanks does not routinely inspect cleanup sites or perform field audits of the contractors' invoices. Testwork on 14 reimbursement requests received after July 1, 2000, disclosed that 8 (57.1%) had no record of a site inspection during or after cleanup. In its response to the prior audit finding, management stated that the division had instituted an inspection program on July 1, 2000, to collect information at select sites where release investigations and corrective actions are ongoing. However, monitoring of the cleanup sites still does not appear adequate.

In addition, testwork was performed to determine if reimbursement requests were being processed timely. None of the 25 reimbursement requests tested were paid within 45 days of receipt of the request. The payments ranged from 62 to 1,014 days after receipt and averaged 180 days. In its response to the prior audit finding, management stated that in September 2000, it had assembled a select group to evaluate the reimbursement process and make recommendations to streamline it and ensure more timely payment of claims. However, payments are still not being made timely.

Inadequate inspections of the cleanup work could result in the department being billed for work that was not done. Untimely payment of requests defeats the purpose of the program, which is to help tank owners pay the cost of a cleanup.

Recommendation

The director of the division should develop written policies and procedures for routinely monitoring all cleanup sites to ensure that the department is paying for work that was actually done. Written policies and procedures should also be developed for processing contractors'

invoices expeditiously. The division should monitor reimbursement request process times to avoid delays in payments.

Management's Comment

We concur that this program's policies and procedures can be improved and should be revised. The department currently reviews all reports, lab results, and other document submittals to ascertain whether the work being done is in accordance with statute and regulations and an approved corrective action plan. We believe these steps ensure that all expenditures are justified under statute and rule. However, to further strengthen controls over expenditures in this program, the department is currently developing policies and procedures to ensure that all sites are monitored appropriately and fully documented to the file.

The department is making a renewed commitment to process all invoices within 45 days after a fully completed application package has been received. A policy is being developed to ensure that invoices are processed within 45 days after a fully completed application package has been received. It should be noted that the reimbursement request noted in the testwork that took 1,014 days for payment was tied up in litigation, which greatly delayed the reimbursement process. Procedures are being implemented to review reimbursement requests for completeness prior to their filing and the beginning of the monitoring of processing time begins. This preliminary review will be logged into a tracking system, and if it is determined that all necessary information has been included, the reimbursement request will be officially filed for processing, and the monitoring of the processing time will begin. If the preliminary review indicates that the reimbursement request is incomplete, the applicant will be notified in writing and directed as to what additional information is needed. Once the applicant corrects the deficiencies, the request will be accepted and the monitoring of processing time will begin.

To further speed up the reimbursement process, the division is developing a procedure using "cost proposals" which must be approved by field staff prior to any work commencing by the tank owner/operator/property owner. After the work has been completed and a reimbursement claim submitted, staff would only need to compare the documented expenditures to the approved cost proposal.

CITIZEN SUPPORT ORGANIZATIONS

In 1993, the Tennessee General Assembly passed legislation which officially sanctioned the organization of "citizen support organizations" to "maintain and enhance the purposes, programs and functions of the state park system, including, but not limited to, educational, interpretative and recreational functions."

Two of the larger citizen support organizations—Friends of Fall Creek Falls and Friends of Standing Stone State Park—were reviewed. Our objectives were to review internal controls and procedures and determine whether

- management of the citizen support organizations visited had controls in place to ensure compliance with terms of their agreement with the state and the applicable state laws;
- the terms of the agreements between the department and the organizations complied with applicable laws and regulations;
- cash receipting duties were adequately segregated;
- cash receipts were properly accounted for and deposited timely;
- cash disbursement duties were properly segregated;
- cash disbursements were made only for allowable purposes;
- activity in the organization's bank account appeared proper; and
- the organizations were properly registered with the Secretary of State's office.

We obtained copies of the organizations' agreements with the Department of Environment and Conservation, lists of the organizations' officers, all bank statements and reconciliations for the last two years, minutes of all organization meetings, and supporting documentation for all receipts and disbursements. We reviewed the minutes of any meetings held during the two calendar years ended December 31, 2001. We interviewed officers of the organizations to gain an understanding of procedures and controls over cash receipts, cash disbursements, donations, and compliance with applicable state laws and regulations. We obtained bank confirmations as of June 30, 2001. We reviewed the agreements with the department to determine if the terms complied with applicable state laws and regulations. We reviewed all bank account activity and supporting documentation for receipts and disbursements shown on the bank accounts.

We concluded that the organizations need to improve controls over their financial activities. We believe these two support groups should review the audit report on other citizen support organizations issued by this office dated November 5, 1997, and implement the report's recommendations.

DIVISION OF INTERNAL AUDIT

The objectives of our review of this division were to determine whether

- the division's written policies and procedures were adequate;
- the staff's education and experience satisfied the state's requirements;
- the internal audit staff had adequate independence;
- annual plans were sent to State Audit on time;
- an adequate number of projects mentioned in the annual plans were completed by internal audit; and

- the information in the working papers supported the conclusions in the audit reports, and the amount of testwork was adequate.

To accomplish our objectives, we reviewed a copy of the policies and procedures manual to determine if the information in it was adequate. We obtained the personnel files of all internal auditors and compared their education and experience to the state's requirements. We reviewed the organization chart of the division to determine if the division had adequate independence. We determined if the division's annual plans were received by State Audit on time. We compared the yearly plans for the years being audited to the list of reports issued for the same period to determine if an adequate number of projects were completed. We reviewed the working papers for five reports that had been issued during the audit period to determine if the testwork in the working papers was adequate and supported the conclusions in the report.

As a result of our review and testwork, we concluded that

- the division's written policies and procedures were adequate;
- the staff's education and experience satisfied the state's requirements;
- the internal audit staff had adequate independence;
- annual plans were sent to State Audit on time;
- an adequate number of projects mentioned in the annual plans were completed by internal audit; and
- the information in the working papers supported the conclusions in the audit reports, and the amount of testwork was adequate.

Although we had no findings related to internal audit, minor weaknesses were reported to management in a separate letter.

ELK RIVER RESOURCES MANAGEMENT

The Tennessee Elk River Development Agency (TERDA) was created in 1963 by the Tennessee General Assembly to develop and implement a program of comprehensive resource and economic development for portions of the Elk River watershed. In 1971, the Tennessee Valley Authority deeded the agency certain land surrounding the Tims Ford Reservoir for development.

The Tennessee General Assembly, in Public Chapter No. 816, dissolved the agency as of April 26, 1996. All powers, duties, contractual obligations, and functions of the agency were transferred to the Tennessee Department of Environment and Conservation. In addition, all interests in real property and in water rights held by the agency were transferred to the department. The department accounts for these activities as Elk River Resources Management.

The objectives of our review of this area were to determine whether

- the assets that were transferred from TERDA when it was dissolved have been properly recorded in the state's inventory systems;
- the procedures being followed by management ensure that the applicable policies were followed; and
- the revenues and expenditures charged to this allotment code were in compliance with the applicable policies and procedures.

To accomplish our objectives, we reviewed the state's inventory systems to determine if the assets of TERDA were properly recorded. We interviewed key personnel and reviewed an organization chart of the division and the applicable laws and regulations to determine if the procedures being followed by management ensured that the applicable policies were followed. We also tested a nonstatistical sample of revenue and expenditure transactions to determine if they were in compliance with the applicable policies and procedures.

As a result of this review and testwork, we concluded that

- most of the assets that were transferred from TERDA when it was dissolved have not been properly recorded in the state's inventory systems (discussed in finding 10);
- the procedures being followed by management ensure that the applicable policies were followed; and
- the revenues and expenditures charged to this allotment code were in compliance with the applicable policies and procedures.

In addition to the finding, other minor weaknesses were reported to management in a separate letter.

10. The department did not establish proper accountability over certain fixed assets

Finding

When the Tennessee Elk River Development Agency (TERDA) was dissolved in 1996 by the Tennessee General Assembly, the state transferred the assets of the agency to the Department of Environment and Conservation. However, as of June 30, 2001, the following assets had not been recorded in the state's inventory systems:

- land that TERDA had recorded at \$3,933,740,
- recreational facilities costing \$536,669,
- buildings costing \$152,476, and
- a water system costing \$52,028.

When assets are not properly accounted for, state regulations are violated; the likelihood of misappropriation, theft, or loss increases; and the assets are not properly reported in the state's financial statements.

Recommendation

The Commissioner should instruct the appropriate staff to work with the Department of Finance and Administration to record these assets in the proper inventory systems.

Management's Comment

We concur. The department has taken appropriate action to ensure that the recreation facilities, buildings, and water system that were transferred to the department from the Tennessee Elk River Development Agency are now properly recorded. The cost of these structures will be included in the June 30, 2002, fixed assets balance for the State of Tennessee, according to the Department of Finance and Administration.

Regarding the land transferred to the department from the Tennessee Elk River Development Agency, management will continue to work with the Department of Finance and Administration Real Property Management Division to properly record these assets on the state's financial statements.

ENVIRONMENTAL SECTION RECEIPTS

The environmental section has 11 divisions plus eight Environmental Assistance Centers which are located across the state. Nine of these divisions and all of the Environmental Assistance Centers receive payments for fees, permits, and licenses. The divisions include Superfund, Underground Storage Tanks, Radiological Health, Solid/Hazardous Waste Management, Air Pollution Control, Ground Water Protection, Water Supply, Water Pollution Control, and Community Assistance (which includes the Fleming Training Center). The fees received from the organizations that these divisions regulate provide practically all of the operational funding.

The objectives of our testwork in this section were to determine whether

- cash receipting duties in the Consolidated Fee Section in Nashville, the Environmental Assistance Centers, and the Fleming Training Center were adequately segregated;
- controls over the issuance and usage of receipt books were adequate;
- access to the databases used to update customer payments to the department for fees and permits was adequately controlled;

- receipts were reconciled to deposits and updates to accounting records; and
- the Division of Water Pollution Control followed up on delinquent permit fees timely.

To accomplish our objectives, we reviewed all applicable policies and procedures. In the Consolidate Fee Section in Nashville, where most customer payments are received, we completed internal control questionnaires and flowcharts to gain an understanding of office procedures, to determine if cash receipting duties were properly segregated, and to determine if access to the customer databases was adequately controlled. We observed the office's handling of receipt books to determine if the controls were adequate. We tested a nonstatistical sample of receipts of the nine divisions of the environmental section to determine if the receipt information reconciled to the bank deposit and the updates to the customer databases. We also tested a nonstatistical sample of late payments made to the Division of Water Pollution Control to determine if the department was following up delinquent permit fees timely.

We visited each of the eight Environmental Assistance Centers. The centers house the offices of the environmental specialists who serve as field inspectors for a particular part of the state. Some centers have employees from as many as eight divisions. Customers can also pay their fees at these centers. Most of the payments that are received at the centers are sent to the Consolidated Fee Section in Nashville for deposit, but a small amount is deposited at a local bank near the center. At each of these centers, we interviewed the staff and completed internal control questionnaires to gain an understanding of the cash receipting procedures and to determine if duties were properly segregated and receipts were issued and accounted for appropriately. We tested a nonstatistical sample of receipts to determine if the receipt information reconciled to the bank deposit. The staff at the centers did not have access to the customer databases. The updates to the databases are performed in Nashville by the Consolidated Fee Section.

We also visited the Fleming Training Center. The center provides training classes for water treatment and waste water treatment operators and administers certification examinations. The training classes are free, but there is a charge to take the exams and to maintain the certification. Payments for the exams and certifications are received at the center. We interviewed the fiscal staff of the center to gain an understanding of the cash receipting duties and to determine if they were properly segregated. We tested a nonstatistical sample of applications to determine if the payments made by the applicants could be reconciled to a bank deposit and if the deposits were made timely.

As a result of all of the above interviews and testwork, we concluded that

- cash receipting duties at the central office, the Environmental Assistance Centers, and the Fleming Training Center were not always adequately segregated;
- controls over the issuance and usage of receipt books was not always adequate;
- access to the databases used to update customer payments to the department for fees and permits was not always adequately controlled;

- receipts were not always reconciled to deposits and updates to accounting records; and
- the Division of Water Pollution Control did not always follow up on delinquent permit fees timely.

These issues are discussed further in findings 11, 12, and 13.

In addition to the findings, other minor weaknesses were reported to management in a separate letter.

11. Cash-receipting and collection procedures for the environmental divisions need improvement

Finding

As stated in the prior three audit reports, the department does not have adequate controls over cash-receipting procedures for the environmental divisions. Management concurred with the prior audit finding and stated that a Consolidated Fee Section had been organized in the Division of Fiscal Services. This section was developed to centralize cash receipting and permit a proper segregation of duties. Improvements have been made in the cash-receipting process; however, further improvements are needed.

For most divisions, one employee in the Consolidated Fee Section enters the payment information into the divisions' ledgers or databases, prepares the deposits, and reconciles the ledgers or databases and the listings of checks to the deposits. However, there is no independent reconciliation of the ledgers or databases, listings of checks, and deposit slips.

For the Radiological Health program, fee payments could not always be traced to the ledgers used to track customer payments. Three of 25 deposits tested (12%) contained at least one receipt that could not be traced to the ledgers. Also, in the Division of Underground Storage Tanks, receipt books could not be located for the period of July 1999 through April 2001.

As stated in the prior three audit reports, the Division of Water Pollution Control did not exert sufficient effort to collect delinquent permit fees. In response to the prior audit finding, management concurred and stated that improvements had been made to the invoicing and tracking system and the Consolidated Fee Section. However, problems remain.

The written departmental policies and procedures for delinquent accounts have not been updated since the establishment of the Consolidated Fee Section. In addition, the policies do not state when the second notice should be sent. Staff of the department indicated that the second notice is usually sent 20 days after the original due date. However, second notices for all 25 delinquent accounts tested were sent 33 days after the March 31, 2001, due date.

Chapter 1 of the department's Environmental Protection Fund Late Payment Penalty and Interest policy states,

If after thirty days since the second notice was sent and the applicant still has not paid the fee, penalty and interest, then the division sends a Request for Legal Action (CN-0929) and documentation supporting all collection efforts to the Division of Fiscal Services (DFS). DFS establishes an accounts receivable for the amount of the outstanding fee plus penalty and interest and forwards this information to the Office of General Counsel (OGC). OGC attempts to collect the amount due.

However, 12 of the accounts tested were not properly updated in the accounts receivable database.

If reviews and reconciliations are not performed by employees who are not involved in the cash-receipting process, errors or fraud could occur and go undetected. If proper procedures for handling delinquent accounts are not followed, chances of collection greatly decrease and revenue may be lost.

Recommendation

The accounting manager of the Consolidated Fee Section should assign specific responsibility for reconciling the ledgers or databases, listings of checks, and deposit slips to someone independent of the cash-receipting process. Also, management should ensure that employees follow the established written departmental policies and procedures for delinquent accounts. These policies should be revised to include each deadline in the collection process and to incorporate the Consolidated Fee Section. Management should monitor and take appropriate action against those employees who do not follow the policies.

Management's Comment

We concur. The department is in the process of purchasing a new accounts receivable program for the Consolidated Fee Section. With the implementation of this software, proper segregation of duties will be attainable with the current staff. To separate the function of preparing the deposits and posting the payments, a staff person will be assigned to prepare the daily deposit. The documentation accompanying the payments along with copies of the checks will then be provided to the appropriate staff to post payments to their databases.

Subsequent to the audit period, delinquent notices have been mailed by the Division of Water Pollution Control within 20 days of the original due date. A schedule has been implemented indicating the dates to mail original invoices and the subsequent delinquent notices. We are currently working with a contractor to edit and update our policies and procedures for all fee section responsibilities and functions, as well as the collection of delinquent accounts to include each deadline in the collection process.

Our Information Systems Division has designed a database to assist the Radiological Health fee program in invoicing and recording payments. Currently, all payments can be researched by facility identification number, name, or receipt number.

Management of the Division of Underground Storage Tanks has taken necessary steps to ensure that receipt books are maintained by fiscal year in the central office and transferred to the State Records Center after one year. Receipt books can be destroyed after six years and audit in conformity with RDA S1730.

12. Controls over cash receipts at the Environmental Assistance Centers are weak

Finding

The department has eight Environmental Assistance Centers across the state. The environmental specialists assigned to the various environmental divisions use these centers for office space, and customers may pay their fees at these centers. Fees received for copies of laws and regulations, some fees in the Division of Ground Water Protection, and some fees in the mining section of the Division of Water Pollution Control are deposited locally. However, most of the fees are sent to the department's Consolidated Fee Section in Nashville for deposit. Each center deposits approximately \$3,500 per year locally except the Knoxville center, which deposits approximately \$15,000.

Cash-receipting duties at the Environmental Assistance Centers were not adequately segregated. Proper cash handling procedures were not always followed. The following weaknesses were noted:

- At the Chattanooga, Knoxville, Johnson City, Cookeville, Memphis, Jackson, Columbia, and Nashville centers, there was no procedure in place to verify that checks collected at the centers but mailed to the Consolidated Fee Section in Nashville for deposit were actually received and deposited in Nashville.
- At the Cookeville, Jackson, and Nashville centers, checks that were received at the centers but deposited by the Consolidated Fee Section in Nashville were not restrictively endorsed at the centers. The checks were stamped for deposit only when they were received in the fee section.
- There were too many individuals with authority to issue cash receipts at the Chattanooga, Knoxville, Johnson City, and Jackson centers. These individuals also performed other duties in the cash-receipting process.
- At the Memphis, Jackson, and Nashville centers, the computer-generated cash receipts sometimes skipped sequence numbers. In addition, at Memphis, the computer sometimes printed separate receipts with the same receipt number. These malfunctions made it difficult to maintain accountability over all receipts that had been issued.

- At the Columbia center, one employee prepares the deposit and takes the deposit to the bank. Another employee, the cashier, reconciles the total of the receipts to the amount of the deposit.
- At the Memphis and Nashville centers, some cash receipts were issued without the initials of the cashier who issued the receipt. Also, at the Chattanooga center, alternate cashiers are not required to log on to the computer under their own password. They use the main cashiers' initials to issue receipts.
- When computer-generated cash receipts were voided at the Jackson, Columbia, and Nashville centers, only one copy of the two-part receipt was maintained. The other copy was destroyed.
- The Nashville center did not properly maintain all three copies of voided handwritten cash receipts. The top copies were missing, and the duplicate copies had been used as originals.
- At the Jackson center, two receipts in the cash receipt book were skipped and not properly voided to prevent later use.
- Unused cash receipt books were not properly safeguarded at the Nashville and Columbia centers.
- Deposits were not adequately safeguarded at the Knoxville, Columbia, and Nashville centers. Either the drawers in which the daily receipts were kept were not locked or the keys to unlock the drawer were in the keyhole.
- The Columbia center did not maintain a cash receipts log, and the Chattanooga center did not maintain a mail log.
- At the Knoxville and Jackson centers, there was no reconciliation performed between the amount of the deposit and the cash receipts log.

Recommendation

The assistant commissioner over the environmental divisions should establish a uniform cash-receipting policy to be used at all Environmental Assistance Centers. This policy should require the use of mail logs and restrictive endorsement of checks as soon as the mail is opened. All receipts should be deposited locally, and the deposit slips should be mailed to Nashville. Someone not involved in the cash-receipting process should reconcile the deposit amounts as shown on the bank receipts to the deposit slips and mail logs. In addition, someone not involved in the cash-receipting process should review the cash receipt books and the computer receipt listings to ensure that all receipt numbers are accounted for.

Management's Comment

We concur. On July 1, 2002, the Bureau of Environment established and implemented a standard policy for cash-receipting to be used at all Environmental Assistance Centers. This policy addresses the finding pertaining to check/cash mail log, segregation of duties, and deposit procedures. This policy has been included in the Standard Operating Procedures Manual for the eight Environmental Assistance Centers.

13. Controls over cash receipting at the Fleming Training Center are weak

Finding

The Fleming Training Center, located in Murfreesboro, Tennessee, is used by the department to conduct training classes that prepare persons to be water treatment and waste water treatment operators. The vast majority of the persons taking these classes work for municipalities and utility districts. The center is also used to administer the certification examinations. Although the classes are provided at no charge to the individuals, there is a charge to take the exams and to maintain the certification. Examination and recertification fees are processed at the center. Approximately \$110,000 is received annually.

The duties involved in the cash-receipting process at the center are not adequately segregated. The following problems were noted:

- The employee who opens the mail does not keep a mail log of all receipts.
- Receipt information in the customer payment database is not reconciled to the bank deposit by someone not involved in the deposit preparation and the database update.
- All employees with access to the customer payment database share the same password and have the same level of access.
- The employee who investigates returned checks, disputed items, and unidentified receipts has access to the customer payment database.

If cash-receipting duties are not properly segregated, the probability increases that errors or fraud could occur and go undetected.

Recommendation

The director of the center should set up procedures for maintaining a mail log and segregating cash-receipting duties. An employee that is not involved in the cash-receipting process and only has inquiry access to the customer payment database should reconcile the mail log to the database and the deposit receipt. Employees should establish individual passwords to the database.

Management's Comment

We concur. The same standard policy for cash receipts referred to in the response to finding 12 will be implemented at the Fleming Training Center. The establishment of this policy should adequately strengthen internal controls for cash receipts.

DEPARTMENT OF FINANCE AND ADMINISTRATION POLICY 16—EMPLOYEE HOUSING AND MEALS

The department has many employees working at parks around the state who need to live at or near the park to be able to respond to emergencies. If possible, the department places the employees in state-owned housing within the park. If this is not possible, the employees are asked to live as close as possible to the park and are paid a housing allowance.

The Department of Finance and Administration (F&A) issued Policy 16 on January 30, 1998, to establish guidelines which ensure compliance with applicable state and federal laws, particularly Internal Revenue Code requirements, governing all housing and meals provided to all officials and employees and to provide a uniform policy addressing all state-owned housing. Because of the number of employees at the department who are subject to the requirements of this policy, we decided to perform testwork on the department's compliance with this policy.

Our objectives were to determine whether

- the department had procedures in place which ensured that F&A Policy 16 was followed;
- F&A was provided with timely updates of changes to the department's housing plan;
- employees receiving housing allowances were also living in state-owned housing;
- employees receiving housing allowances satisfied the necessary prerequisites; and
- employees living in state-owned housing had completed all of the required forms.

To accomplish these objectives, we reviewed the policy to gain an understanding of its requirements. We interviewed departmental personnel to gain an understanding of the procedures they used to ensure compliance with the requirements of this policy. We contacted F&A to determine if the department had been providing F&A with timely updates of its plan. We obtained copies of the department's housing plans and procedures issued during the audit period. We obtained a listing from the State Employee Information System (SEIS) of all employees who had received a housing allowance during the audit period and compared this to a list obtained from the department of employees who were assigned state-owned housing during the audit period to determine if any employees were receiving both. We tested a nonstatistical sample of employees who received a housing allowance to determine if their job duties and circumstances permitted it. We reviewed a nonstatistical sample of employees living in state-owned housing to determine if the forms required by Policy 16 were on file.

As a result of our interviews and testwork, we concluded that

- the department did not have procedures in place which ensured that F&A Policy 16 was followed;
- F&A was not provided with timely updates of changes in the department's housing plan;
- some employees receiving housing allowances were shown on the housing plan as living in state-owned housing;
- employees receiving housing allowances did not always satisfy the necessary prerequisites; and
- employees living in state-owned housing had completed all of the required forms.

The problems mentioned above are discussed in finding 14. In addition to the finding, other minor weaknesses were reported to management in a separate letter.

14. The department did not fully comply with state policy on providing housing to employees

Finding

On January 30, 1998, the Department of Finance and Administration (F&A) issued Policy 16, *Employee Housing and Meals*. This policy was issued to ensure compliance with state and federal laws governing all housing and meals provided to all officials and employees and to provide a uniform policy addressing all state-owned housing. As noted in the prior audit, the department did not fully comply with Policy 16. Management concurred with the prior finding and stated that during calendar year 2000 they had instituted a procedure to ensure the department's housing policy and F&A Policy 16 are adhered to. Nevertheless, problems remain.

Paragraph 4 of the policy states, "All agencies and departments of the State that provide maintenance for State officials or employees shall submit a plan and develop procedures for the provision of employee maintenance in accordance with the Criteria established in this Statement." Paragraph 16 of the policy states, "Departmental plans and procedures and subsequent revisions shall be submitted to the Commissioner of the Department of Finance and Administration for approval. Upon approval, copies shall be filed with the Comptroller of the Treasury, Division of State Audit." However, during the audit period, the department only submitted one housing plan to F&A, the January 2000 plan. The department prepared another plan in August 2000 but never submitted it to F&A. The department did not file either plan with the Division of State Audit.

Testwork on the August 2000 plan disclosed that three employees received a housing allowance for most of the period from August 2000 to June 2001 but were not shown on the housing plan.

A sample of 25 employees who received a housing allowance during the audit period was tested to determine if the allowance had been properly approved by the Commissioner of this department and the Commissioner of F&A. For two of the employees tested (8%), there was no documentation on file to indicate that their allowances had been approved.

Paragraph 14 of the policy states, “Under no circumstances shall an employee receive a Housing Allowance while living in state-owned housing.” Two employees shown in the August 2000 plan as being assigned state housing also received a housing allowance that month. One of the employees was shown on both the January 2000 plan and the August 2000 plan as being assigned a house. The employee received an allowance from January 2000 through June 2001. The other employee shown on the August plan as being assigned a house received an allowance from August 2000 through June 2001.

Beginning in December 2000, the department set up a pool of three rangers who were used for temporary assignments across the state, and they began receiving a housing allowance of \$410 per month. Prior to December 2000, these rangers had been assigned to the Bicentennial Mall and were receiving additional pay of \$579 per month because they worked at a park in a large metropolitan area. During the month of December 2000, they received both the housing allowance and the additional pay. From December 2000 to June 2001, when these rangers traveled to a park for their temporary assignment, they were also reimbursed for meals; personal car usage, if applicable; and lodging. It does not appear appropriate for these rangers to receive a housing allowance since they are not required to live in close proximity to their assignment.

Paragraph 6.c. defines a housing allowance as “a monthly pay supplement provided to essential employees when state-owned housing is not available on the business premises.” Paragraph 13 of the policy states, “To be eligible for a Housing Allowance, the employee must have job responsibilities that vary from his/her regular work schedule and by necessity must live in close proximity of the state agency, department, or institution.”

If the department does not keep an accurate listing of the status of its employees, the probability increases that errors and fraud could occur and go undetected. In addition, IRS regulations and F&A Policy 16 would not be followed.

Recommendation

The assistant commissioner over state parks should ensure that the provisions of Policy 16 are followed. Plans should be submitted to F&A for approval whenever changes are made and filed with the Division of State Audit. The assistant commissioner should assign specific responsibility for reviewing the listing of employees living in state housing and compare it with the listing of employees receiving a housing allowance to ensure that no one is receiving both and that the approved housing plan is up to date. Housing allowances should only be paid to employees on permanent assignment to a state park who meet the requirements of Policy 16.

Management's Comment

We concur in part that the department did not fully comply with the state policy on housing. The Assistant Commissioner for State Parks has assigned two employees to oversee, review, and verify the Resident Housing Plan and the Housing Allotment List. These lists will be sent to the Division of Finance and Administration and the Division of State Audit monthly.

However, management does not agree with the audit report finding that employees in the "Ranger Pool" should not receive a housing supplement. On July 16, 2002, the Department of Finance and Administration approved a Housing Supplemental Exception effective immediately. This exception will allow the department to provide monthly supplements to the Park Rangers and Park Interpretive Specialists that support the "Ranger Pool" located at the Ranger Program Headquarters.

Furthermore, the department is in the process of collecting the overpayments of housing supplements made to the two employees cited in this finding.

Auditor's Comment

Even though the Commissioner of Finance and Administration approved the exception to Policy 16, the employees in the ranger pool do not appear to qualify for a housing allowance under the provisions of the policy. The employees in the ranger pool are not required as a condition of employment to live in state-owned housing; therefore, they are not entitled to a housing allowance. In addition, when these rangers travel to parks for an assignment, they are reimbursed for any meals, personal vehicle usage, and lodging in accordance with the state's travel regulations. It does not appear to be in the best interest of the state for such an exception to be made for these employees.

FINANCIAL INTEGRITY ACT

Section 9-18-104, *Tennessee Code Annotated*, requires the head of each executive agency to submit a letter acknowledging responsibility for maintaining the internal control system of the agency to the Commissioner of Finance and Administration and the Comptroller of the Treasury by June 30 each year.

Our objective was to determine whether the department's June 30, 2001, and June 30, 2000, responsibility letters were filed in compliance with Section 9-18-104, *Tennessee Code Annotated*.

We reviewed the June 30, 2001, and June 30, 2000, responsibility letters submitted to the Comptroller of the Treasury and to the Department of Finance and Administration to determine adherence to the submission deadline. We determined that the Financial Integrity Act

responsibility letters were not submitted on time. The letter due June 30, 2001, was received on July 2, 2001, and the letter due June 30, 2000, was received on July 11, 2000.

OBSERVATIONS AND COMMENTS

TITLE VI OF THE CIVIL RIGHTS ACT OF 1964

Section 4-21-901, *Tennessee Code Annotated*, requires each state governmental entity subject to the requirements of Title VI of the Civil Rights Act of 1964 to submit an annual Title VI compliance report and implementation plan to the Department of Audit by June 30 each year. The Department of Environment and Conservation filed its compliance reports and implementation plans on June 30, 2001, and June 29, 2000.

Title VI of the Civil Rights Act of 1964 is a federal law. The act requires all state agencies receiving federal money to develop and implement plans to ensure that no person shall, on the grounds of race, color, or origin, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity receiving federal funds. The Human Rights Commission is the coordinating state agency for the monitoring and enforcement of Title VI. A summary of the dates state agencies filed their annual Title VI compliance reports and implementation plans is presented in the special report *Submission of Title VI Implementation Plans*, issued annually by the Comptroller of the Treasury.

APPENDIX

ALLOTMENT CODES

327.01	Administrative Services
327.03	Conservation Administration
327.04	Historical Commission
327.06	Land and Water Conservation Fund
327.07	Commission on Indian Affairs
327.08	Archaeology
327.11	Geology
327.12	Tennessee State Parks
327.14	Natural Heritage
327.15	Tennessee State Parks Maintenance
327.17	Tennessee Elk River Resources Management
327.18	Maintenance of Historic Sites
327.19	Local Parks Acquisition Fund
327.20	State Lands Acquisition Fund
327.23	Used Oil Collection Program
327.24	West Tennessee River Basin Authority Maintenance
327.26	West Tennessee River Basin Authority
327.28	Tennessee Dry Cleaners Environmental Response Fund
327.30	Environment Administration
327.31	Air Pollution Control
327.32	Radiological Health
327.33	Community Assistance
327.34	Water Pollution Control
327.35	Solid Waste Management
327.36	Department of Energy Environmental Oversight
327.37	Abandoned Lands Program
327.38	Hazardous Waste Remedial Action Fund
327.39	Water Supply
327.40	Groundwater Protection
327.41	Underground Storage Tanks
327.42	Solid Waste Assistance Fund
327.43	Environmental Protection Fund